

Muskegon Area District Library

Financial Statements

**For the Period from October 1, 2005
to December 31, 2005**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Muskegon Area District Library	County Muskegon
Audit Date 12/31/05	Opinion Date 5/31/06	Date Accountant Report Submitted to State: 6/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC			
Street Address 3145 Henry Street, Ste. 200		City Muskegon	State MI
Accountant Signature <i>Pridnia LaPres, PLLC</i>		ZIP 49441	Date 6/28/06

Muskegon Area District Library

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Independent Auditors' Report

To the members of the
Muskegon Area District Library Board

We have audited the financial statements of the governmental activities of the Muskegon Area District Library, as of and for the three months ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Muskegon Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements listed in the table of contents present fairly, in all material respects, the financial position of the governmental activities of the Muskegon Area District Library at December 31, 2005, and the results of the operations of such activities for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison schedule (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Pridnia Lapres, PLLC

May 31, 2006

Muskegon Area District Library
Management's Discussion and Analysis
December 31, 2005

The management of the Muskegon Area District Library presents a narrative overview of the financial condition and operations of the library for the three month period ended December 31, 2005. This is the first year for the entity and the reason for the short period is to bring into line the fact the library was created as of October 1, 2005 and wished to have a January to December fiscal reporting period. Please read this narrative in conjunction with our financial statements and note to financial statements.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) statement number 34 and presented in the prescribed format.

The District Library's financial statements are comprised of: 1) Governmental Funds Balance Sheet/Statement of Net Assets and 2) Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. This report also contains required supplementary information regarding a budgetary comparison schedule of the General Fund.

The "statement of net assets" provides information about the library's assets and liabilities, with the difference between the two being reported as "net assets". Viewing this difference over a period of years can serve as one indicator of the library's ability to continue to operate.

The "statement of activities" provides information on why net assets changed in the period just ended. All changes in net assets are reported as soon as the event occurs, *regardless of the timing of the related cash flows*. Thus, revenue and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods. Examples of timing differences are uncollected taxes and earned but unused vacation leave.

The library is primarily supported by contributions in 2005 from the County. In 2006, the primary support will be penal fines and contributions from the County. In 2007, the primary support will be property taxes that will be levied on an annual basis. Renewal of the levy occurs every 10 years. Expenditures are primarily for branch operations, administration, and book purchases.

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information concerning the library's budget and how it relates to the amounts actually spent.

The District Library as a Whole

The "Statement of Net Assets" provide the readers with information on the General Fund of the library under full accrual which includes capital assets and debt. With the economic resources presentation, readers can see if the library is improving or deteriorating financially. The library's total net assets equal \$433,643 with unrestricted being \$198,635. With the majority of this amount being in cash, the library is covered for any financial issues that may occur in 2006.

District Library
Statement of Net Assets
December 31, 2005

Categories

Assets

Cash	\$ 195,607
Accounts Receivable	3,028
Capital Assets, net	244,533

Total Assets	\$ 443,168
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Liabilities	\$ 9,525
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Net Assets

Investment in Capital Assets net of related debt	235,008
Unrestricted	198,635

Total Net Assets	\$ 443,168
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District Library
Statement of Activities
for the Three Months ended December 31, 2005

Revenues	
Contributions	\$ 381,003
Reimbursements	33,478
Donated Assets	313,034
Other	9,574
<hr/>	
Total Revenues	737,089
Expenditures	
Leased employer costs	156,660
Depreciation	35,353
Other	111,433
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Total Expenditures	303,446
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Excess of Revenues over Expenditures	433,643
Net Assets Beginning October 1, 2005	-
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Net Assets Ending December 31, 2005	\$ 433,643
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As this is the first year of operation, trend data is not available for the statement of activities.

Economic factors for next year's budget

The library's budget for next year projects a balanced budget. The majority of revenues will come from County contributions and penal fines. Personnel costs are expected to go up with the cost of inflation. Positions are being returned to bring the system back to its pre 2005 status. The library administration offices may be moving to a new location by November 1, 2006.

Contacting the District Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and other interest parties with a general view of the Library's financial operations and to show the Library's accountability for the revenues it receives. If you have questions or need further clarification about this report, please contact Elizabeth Winsche, Library Director, at 231-724-6248 or email her at winscheel@co.muskegon.mi.us.

Muskegon Area District Library

Governmental Funds Balance Sheet/Statement of Net Assets

<i>December 31, 2005</i>	<u>Modified Accrual Basis</u>		<u>Full Accrual Basis</u>
	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$195,607	\$ -	\$ 195,607
Accounts receivable	3,028	-	3,028
Capital assets, net (Note 3)	-	244,533	244,533
Total Assets	\$198,635	\$ 244,533	\$ 443,168
Liabilities			
Long-term liabilities			
Note payable - due within one year (Note 4)	\$ -	\$ 9,525	\$ 9,525
Fund Balance/Net Assets			
Fund Balance - Unreserved			
Unrestricted	198,635	(198,635)	-
Total Liabilities and Fund Balance	\$198,635		
Net Assets			
Invested in capital assets-net of related debt		\$ 235,008	\$ 235,008
Unrestricted		198,635	198,635
Total Net Assets		\$ 433,643	\$ 433,643

The accompanying notes are an integral part of this statement.

Muskegon Area District Library

Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities

	Modified Accrual Basis		Full Accrual Basis
<i>Three months ended December 31, 2005</i>	General Fund	Adjustments	Statement of Activities
Revenues			
Interest and rentals	\$ 2,182	\$ -	\$ 2,182
Contributions	381,003	-	381,003
Fines and forfeits	6,654	-	6,654
Reimbursements	33,478	-	33,478
Donated assets	52,479	260,555	313,034
Other revenue	738	-	738
Total Revenue	476,534	260,555	737,089
Expenditures			
Administrative expense	28,044	-	28,044
Books and magazines (Note 6)	28,256	(9,806)	18,450
Contractual services	18,758	-	18,758
Depreciation	-	35,353	35,353
Insurance	8,296	-	8,296
Leased employee costs	156,660	-	156,660
Maintenance	7,744	-	7,744
Miscellaneous	3,742	-	3,742
Postage	1,369	-	1,369
Professional fees	3,348	-	3,348
Rent	5,653	-	5,653
Supplies	1,241	-	1,241
Telephone	14,788	-	14,788
Total Expenditures	277,899	25,547	303,446
Excess of Revenues Over Expenditures	198,635	235,008	433,643
Fund balance/Net assets - October 1, 2005	-	-	-
Fund balance/Net assets - December 31, 2005	\$198,635	\$235,008	\$433,643

The accompanying notes are an integral part of this statement.

Muskegon Area District Library

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

The Muskegon Area District Library (District Library) was established on October 1, 2005, pursuant to Act No. 24 of the Public Acts of 1989 by the participating municipalities of Muskegon County, Blue Lake, Casnovia, Cedar Creek, Dalton, Egelston, Fruitland, Fruitport Charter, Holton, Laketon, Montague, Moorland, Muskegon Charter, Ravenna, Sullivan and White River Townships, Village of Fruitport, and the Cities of Montague, Muskegon Heights, North Muskegon, Norton Shores and Roosevelt Park. The District Library provides library services to the general public.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Muskegon Area District Library.

The Statement of Activities demonstrates the degree to which the direct expenses of providing library services are offset by the revenues designated to fund those services. All of the revenues of the General Fund of the District Library are intended to pay for those direct expenses, except as designated by the Library Board.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Muskegon Area District Library

Notes to Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District Library considers revenues to be available if they all collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

State-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period, when applicable. All other revenue items are considered to be available only when cash is received by the District Library.

The Various funds are presented in these financial statements as follows:

General Fund - This fund is used to account for all financial transactions not accounting for in another fund, including the general operating expenditures of the District Library.

Capital Assets

Capital assets, which include property and equipment, are reported in the Statement of Net Assets column in the government-wide financial statements. Capital assets are defined by the District Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Muskegon Area District Library

Notes to Financial Statements

Property and equipment is depreciated using the straight-line method over the following useful lives:

Collections	5 years
Equipment	3 - 10 years

Budgets and Budgetary Accounting

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or before December 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed operating and capital expenditures and the means of financing them.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through passage of a resolution.
- d. The District Library director is authorized to transfer budgeted amounts within funds within any activities, except for certain activities which require Library Board authorization.
- e. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.
- g. The budget has been adopted on a total fund basis.

Budgeted amounts are as originally adopted by the District Library Board as of December 31, 2005.

Muskegon Area District Library

Notes to Financial Statements

Encumbrances

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District Library.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Donations

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. All non-cash donations are recorded at their estimated fair market value as of the date of the contribution.

Cash Equivalents

The District Library considers all short-term investments with an original maturity of three months or less to be cash equivalents.

2. Cash

The District Library's cash at December 31, 2005 is reported in the General Fund. At December 31, 2005 the carrying amount of the District Library's deposits was \$195,267 and is fully secured by the County of Muskegon's fiduciary responsibility.

Muskegon Area District Library

Notes to Financial Statements

3. Capital Assets

Capital assets activity of the District Library for the period ended December 31, 2005 was as follows:

	Balance October 1, 2005	Additions	Deletions	Balance December 31, 2005
Governmental Activities				
Capital assets being depreciated				
Collections	\$ -	\$ 205,071	\$ -	\$ 205,071
Equipment	-	74,815	-	74,815
Subtotal	-	279,886	-	279,886
Less accumulated depreciation for:				
Collections	-	(25,071)	-	(25,071)
Equipment	-	(10,282)	-	(10,282)
Subtotal	-	(35,353)	-	(35,353)
Governmental Activities Total Capital Assets - Net of Depreciation	\$ -	\$ 244,533	\$ -	\$ 244,533

Muskegon Area District Library

Notes to Financial Statements

- 4. Long-term liabilities** Long-term liabilities consist of three obligations to the County of Muskegon for various equipment purchases. The obligations are unsecured. The full faith and credit of the District Library is pledged for their repayment.

The activity for the period ended December 31, 2005 can be summarized as follows:

Governmental Activities	Interest Rate	Principal Matures	Beginning Balance	Additions (Reduction)	Ending Balance	Due Within One Year
Computer equipment	4.25%	May 2006	\$ -	\$ 1,249	\$ 1,249	\$ 1,249
Computer data network	4.25%	May 2006	-	3,306	3,306	3,306
Integrated library system	4.00%	September 2006	-	4,970	4,970	4,970
					<u>\$ 9,525</u>	<u>\$ 9,525</u>

All debt matures during 2006.

- 5. District Library Agreements** The District Library entered into an agreement with local participating municipalities effective October 1, 2005. Among other things, the Agreement provides for Muskegon County to pay the District Library an amount equal to \$300,000 no later than October 15, 2006. The District Library is obligated to reimburse the County for the same amount without interest when revenues are received from the December 1, 2006 levy of the District Library millage.

The District Library has a lease agreement with the County of Muskegon which provides for an annual payment of \$1 for the use of the existing library building. This lease expires in the year 2010. The District Library is responsible for its own maintenance and utilities.

Muskegon Area District Library

Notes to Financial Statements

The District Library also has an employee leasing agreement with the County of Muskegon which will terminate on December 31, 2006. In accordance with the agreement, the District Library reimburses the County for all associated payroll costs for the County employees assigned to the Library.

6. Capitalized Books

The District Library generally capitalizes its purchases of Collection materials, with the exception of periodicals, in the Statement of Net Assets. The District Library expended \$28,256 (less \$9,806 capitalized) for books and magazines purchases for the period ended December 31, 2005.

7. Endowment Fund

An endowment fund has been established at the Community Foundation for Muskegon County for the District Library. This fund is accounted for and administered by the Community Foundation for Muskegon County. At December 31, 2005, this fund was valued at approximately \$50,000.

Required Supplemental Information



Muskegon Area District Library

Budgetary Comparison Schedule - General Fund

<i>Year ended December 31, 2005</i>	Original Budget	Actual	Variance with Original Budget
Revenues			
Interest and rentals	\$ 950	\$ 2,182	\$ 1,232
Contributions	374,932	381,003	6,071
Fines and forfeits	5,500	6,654	1,154
Reimbursements	38,975	33,478	(5,497)
Donated assets	-	52,479	52,479
Other revenue	7,678	738	(6,940)
Total Revenues	428,035	476,534	48,499
Expenditures			
Administrative expense	25,000	28,044	(3,044)
Books and magazines	21,125	28,256	(7,131)
Contractual services	19,750	18,758	992
Insurance	7,967	8,296	(329)
Lease employee costs	173,913	156,660	17,253
Maintenance	6,645	7,744	(1,099)
Miscellaneous	2,845	3,742	(897)
Postage	1,750	1,369	381
Professional fees	2,846	3,348	(502)
Rent	9,218	5,653	3,565
Supplies	2,650	1,241	1,409
Telephone	14,385	14,788	(403)
Total Expenditures	288,094	277,899	10,195
Excess of Revenues Over Expenditures	139,941	198,635	58,694
Fund balances - October 1, 2005	-	-	-
Fund Balances - December 31, 2005	\$139,941	\$198,635	\$58,694